



Department of Justice

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ARIZONA-BASED CORPORATION AGREES TO PLEAD GUILTY TO CHARGES OF DEFRAUDING THE FEDERAL E-RATE PROGRAM

Corporation Agrees To Pay \$8.71 Million Fine and Restitution

WASHINGTON, D.C. -- Inter-Tel Technologies Inc., a subsidiary of Inter-Tel Incorporated, has agreed to plead guilty and to pay a total of \$8.71 million criminal fine, civil settlement, and restitution relating to charges of bid rigging and wire fraud in connection with the Federal Communication Commission's E-Rate program, the Department of Justice and the United States Attorney's Office for the Northern District of California announced today.

The E-Rate program, created by Congress in the Telecommunications Act of 1996, provides funding for needy schools and libraries to connect to and utilize the Internet. Under the E-Rate program which is funded by monies collected from telephone users, schools apply for monies to provide cabling, Internet backbone equipment (i.e. servers, PBX, and switches), and to pay for monthly connectivity service fees.

In a two-count felony charge filed under seal on December 6, 2004 and unsealed today in U.S. District Court in San Francisco, Inter-Tel was charged with one count of allocating contracts and submitting rigged bids for E-Rate projects at two different school districts in Michigan and California. Inter-Tel also was charged with one count of wire fraud and aiding and abetting by willfully entering into a scheme to defraud the E-Rate program in San Francisco by inflating bids, agreeing to submit false and fraudulent documents to hide the planned

installation of ineligible items, and submitting false and fraudulent documents to defeat inquiry into the legitimacy of the funding request.

“This conduct deprived the E-Rate program of fair and competitive prices, caused the program to pay for unnecessary, inappropriate, and ineligible items, and as a result, prevented the program from funding projects at other schools that should have received funding,” said R. Hewitt Pate, Assistant Attorney General in charge of the Department’s Antitrust Division.

Inter-Tel has negotiated a resolution of this case, which, if approved by the court, requires the company to pay \$1.71 million in criminal fines and \$7 million in restitution and civil settlement. The plea hearing and sentencing for Inter-Tel is scheduled for later today.

"Congress established the E-Rate program to help underprivileged schools gain access to the Internet. I am proud of the work performed on this case and the significant penalties assessed. I hope these fines will serve as a deterrent to others who would abuse public money and deprive other needy schools of much needed funding," emphasized Kevin V. Ryan, United States Attorney for the Northern District of California.

In May 2004, NEC-Business Network Solutions Inc., a subsidiary of NEC America Inc., pleaded guilty and paid a total \$20.6 million criminal fine, civil settlement and restitution relating to charges of collusion and wire fraud. NEC/BNS continues to cooperate in the ongoing nationwide investigation headed by the Antitrust Division. Additionally, the U.S. Attorney’s Office in San Francisco brought a case involving a San Francisco Unified School District official, Desmond McQuoid, who pleaded guilty to mail fraud and was sentenced to 22 months in prison for his part in submitting false billings to the school district and for his participation in the attempted E-Rate program fraud in San Francisco.

The Sherman Act charge, a violation of 15 U.S.C. § 1, carries a maximum penalty of a \$10 million fine. The mail fraud charge, a violation of 18 U.S.C. § 1341, carries a maximum penalty of a \$500,000 fine and restitution to the victims of the crime. The maximum fines may be increased to twice the gain derived from the crime or twice the loss suffered by the victim of the crime, if either of those amounts is greater than the statutory maximum fine.

The charges and agreed to resolution announced today resulted from an ongoing federal investigation of fraud and anti-competitive conduct in the E-Rate program. The investigation is being conducted jointly by the U.S. Department of Justice's Antitrust Division, and the United States Attorney's Office for the Northern District of California, along with the assistance of the San Francisco, Los Angeles, Fresno, and Detroit offices of the Federal Bureau of Investigation. The civil case is being handled jointly by the U.S. Attorney's Office for the Northern District of California and the Department of Justice's Civil Division.

Anyone with information concerning fraud or anti-competitive conduct in the E-Rate program should contact the Cleveland Field Office of the Antitrust Division at (216) 522-4070 or the San Francisco Office of the FBI at (415) 553-7642.

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